



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Cottonwood-Oak Creek Elementary School District No. 6

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 31, 2006

Governing Board
Cottonwood-Oak Creek Elementary School District No. 6
1 North Willard Street
Cottonwood, AZ 86326-3651

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Director of Business Services in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



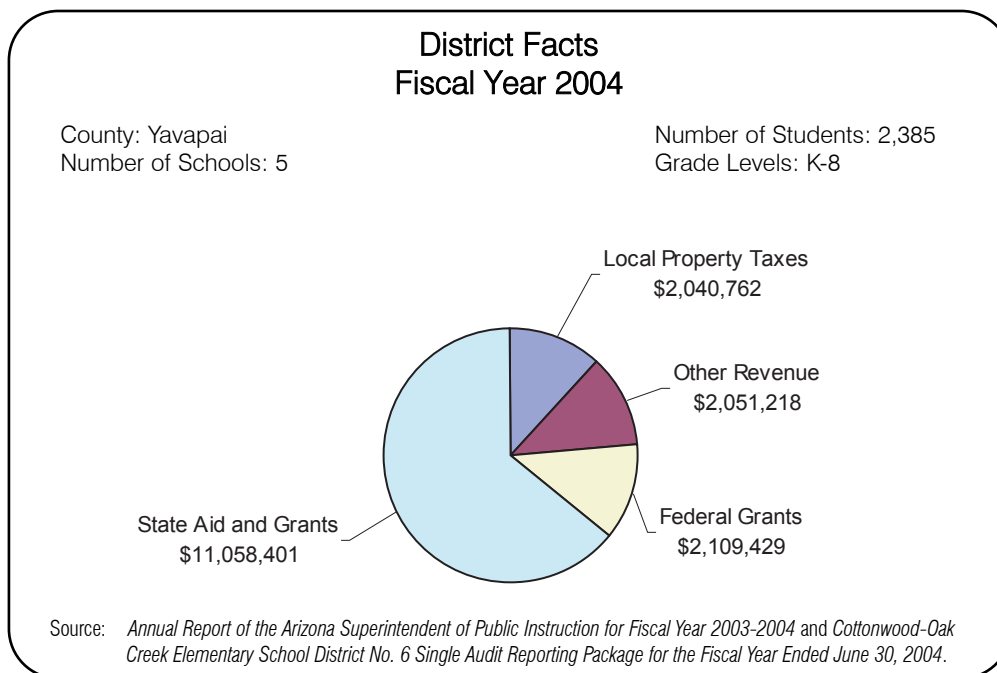
Introduction	1
Recommendation 1: The District must follow competitive purchasing requirements	2
Recommendation 2: The District should maintain and report accurate financial and budgetary information	3
Recommendation 3: The District should ensure the accuracy of its student attendance records	4

INTRODUCTION

Cottonwood-Oak Creek Elementary School District No. 6 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$17 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not always issue invitations for bids or requests for proposals for purchases that exceeded the competitive bid threshold. Also, the District did not always follow the Procurement Rules when bids or proposals were obtained. Further, the District did not always obtain written or oral price quotations for purchases requiring them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Determine whether to request oral or written price quotations or issue invitations for bids or requests for proposals by analyzing the quantities required for an item or collection of items that, individually or in the aggregate, may result in purchases above the applicable thresholds.
- Issue invitations for bids or requests for proposals, as appropriate, for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Include all information required by the School District Procurement Rules in its invitations for bids and requests for proposals, and retain all supporting documentation.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

The District should maintain and report accurate financial and budgetary information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and budgets are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District did not make transfers in accordance with statute and did not file its Advice of Encumbrance by the statutory deadline for the appropriate amount. In addition, the District's year-end reconciliation to the County Treasurer's records performed by the County School Superintendent (CSS) did not include transactions for the 60-day encumbrance period. Further, more than half of the District's bank balance was uninsured and uncollateralized.

The District had \$159,735 in the bank that was uninsured and uncollateralized at fiscal year-end.

Additionally, the District did not follow publishing and public meeting guidelines for the budgetary process. Finally, the District's adopted budget exceeded its proposed budget and the general budget limit, and actual expenditures in one fund exceeded the amount budgeted by the District for that fund.

Recommendations

The following policies and procedures can help the District record and report accurate financial information:

- Ensure transfers of monies between funds are made only when specifically authorized by statute.
- Prepare an Advice of Encumbrance for liabilities payable at fiscal year-end and submit it to the CSS by July 18. Ensure that the total amount to be encumbered for each levy fund is less than or equal to the fund's unexpended budget balance.
- Ensure that the District's cash balances by fund are properly reconciled to the County Treasurer's records by the CSS after the encumbrance period. Written reconciliations should be prepared and all necessary corrections should be made.
- Obtain a collateral agreement with the District's bank for any bank account balances in excess of the federal depository insurance coverage.

A list of authorized transfers is included on USFR pages III-F-1 through 3.

- Publish or mail the proposed expenditure budget or budget summary and the notice of public hearing and special board meeting no later than 10 days prior to the meeting to consider the budget.
- Ensure that only deductions are made to the M&O and capital outlay proposed budget totals. Additions may not be made to the M&O and Capital Outlay Funds' proposed budgets.
- Adopt a budget that does not exceed the general budget limit, the unrestricted capital budget limit, or the soft capital budget limit.
- Obtain approval for revisions to the adopted expenditure budget at a Governing Board meeting.
- Verify that sufficient budget capacity exists before authorizing expenditures from budget-controlled funds.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, membership, and absences. Accurate attendance records are essential to ensure that the District receives its fair share of state aid and local property taxes. However, the District's fourth grade was not in attendance for the required 880 instructional hours for fiscal year 2004. In addition, the District did not always calculate partial-day absences correctly, ensure that entry dates recorded on entry forms agreed to the dates in the District's computerized attendance system, and ensure that withdrawal dates were entered into the system timely. Further, the District's membership and absence records did not agree to ADE's reports.

Recommendations

To help ensure that the District receives the correct amount of state funding and complies with Arizona Revised Statutes, the District should perform the following:

- Ensure that fourth grade has at least 890 instructional hours for fiscal year 2006 and thereafter.
- Record and report membership and absences in accordance with ADE's *Instructions for Required Reports*.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Assign an employee to verify that entry dates in the attendance system agree with entry forms.
- Enter withdrawal information into the computerized attendance system within 5 working days to ensure that membership days are accurately reflected in ADE's Student Accountability Information System.
- Assign an employee to verify that membership and absences reported to ADE agree with the District's computerized attendance system.